

IMPLICATIONS OF INTRA-FAMILY AND EXTERNAL OWNERSHIP TRANSFER OF FAMILY FIRMS: SHORT-TERM AND LONG-TERM PERFORMANCE DIFFERENCES

KARL WENNBERG,¹² JOHAN WIKLUND,³⁴ KARIN HELLERSTEDT,⁴ and MATTIAS NORDQVIST^{4*}

¹Stockholm School of Economics, Stockholm, Sweden

²Ratio Institute, Stockholm, Sweden

³Whitman School of Management, Syracuse University, Syracuse, New York

⁴Jönköping International Business School, Jönköping, Sweden

We contrast the performance consequences of intra-family versus external ownership transfers. Investigating a sample of all private family firms in Sweden that went through ownership transfers during 10 years, we find that firms transferred to external owners outperform those transferred within the family, but that survival is higher among intra-family transfers. We attribute these performance differences to the long-term orientation of family firms passed on to the next generation and to the entrepreneurial willingness of acquirers to bear uncertainty. Based on distinct ownership transition routes and theoretical mechanisms explaining performance differences, we outline implications for family business and entrepreneurship research. Copyright © 2011 Strategic Management Society.

INTRODUCTION

Succession is the single most studied topic in family business research (Sharma, 2004; Le Breton-Miller, Miller, and Steier, 2004). An important insight from this literature is that the type of succession route that a family chooses will likely impact the future performance of the business (De Massis, Chua, and Chrisman, 2008). In the case of passing on a family business within the same family, this act can be seen as a family's continued commitment to entrepreneurship, representing both an exit of current owner-managers and the entry of the next generation. As an alternative to passing on the business to the next

generation of family members, owner-managers can decide to exit the business and transfer ownership to outside parties if they deem this the more attractive option. This dilemma is one of the most central and difficult decisions for a business family, having vast implications for the business. The transfer of ownership to outsiders can represent an entrepreneurial exit and the harvesting of the efforts of generations of predecessors (DeTienne, 2010), leaving the business in the hands of those that are better equipped to continue value creation. Divestment of established companies typically provides the sellers with resources they can invest in new business opportunities (Mason and Harrison, 2006). Thus, the organizational implications of succession and ownership transfer should be regarded as important for strategic entrepreneurship; a concept that refers to how owners and managers combine a firm's opportunity and advantage-seeking behaviors to create new value (Hitt *et al.*, 2011; Webb, Ketchen, and Ireland, 2010).

Keywords: long-term orientation; succession; ownership transfer; family firms; performance

*Correspondence to: Mattias Nordqvist, Jönköping International Business School, P.O. Box 1026, SE-551 11, Jönköping, Sweden. E-mail: mattias.nordqvist@jibs.hj.se

While the organizational consequences of appointing inside or outside management is a recurring theme in the strategic management, entrepreneurship, and family business literatures (De Massis *et al.*, 2008; Karaevli, 2007), the performance differences between intra-family and external transfer of ownership have received scant attention in these literatures (Astrachan, 2010). Different types of succession are likely to have different impacts on the performance of the business post-succession (Cucculelli and Micucci, 2008). For example, it has been noted that the performance implications of ownership transfers from the first to the second generation are different from ownership transfers from second to third generation (Molly, Laveren, and Deloof, 2010).

Given that passing the ownership of a family business to owners outside the family may have substantial implications for the family business, it is surprising to note the paucity of research comparing the performance consequences of intra-family versus external ownership transfer. The assumption is commonplace in much of the extant succession literature that if an heir is available, intra-family transfer of ownership will be preferred (De Massis *et al.*, 2008).

We define *intra-family transfer of ownership* as occurring when one or several members in the nuclear or immediate family leave the ownership of the family firm in the hands of a successor (spouse or children). *External transfer of ownership* occurs when nonfamily members take over ownership. While recent empirical research has found that firms taken over by outsiders generally perform better than those that remain within the family (Bennedson *et al.*, 2007; Cucculelli and Micucci, 2008), an emerging strand in the family business literature reports that family firms tend to have different time horizons and attitudes to risk compared to nonfamily firms (Gomez-Mejia *et al.*, 2007; James, 1999; Zellweger, 2007). As a consequence, it is likely that the performance implications of intra-family versus external ownership transfers may differ in the short and the long run. The few available studies to date have examined only the immediate performance changes following succession, despite the fact that the performance implications of overhauls in financial and corporate strategy following a change in ownership may take years to materialize (Bharadwaj, 2000; Capron, 1999; Webb *et al.*, 2010). Further, inasmuch as the short-term financial implications of ownership changes tend to be small, they may well not clearly reveal the full extent to which changes in ownership in family firms

brings about systematic variations in performance (Moeller, Schlingemann, and Stultz, 2005). Thus, to extend knowledge on succession and entrepreneurship in family firms, we argue that research concerned with the performance effects of different types of ownership transitions needs to look more closely at the differences in the short-term and long-term effects on performance. To address these problems, we utilize a research design that exploits a unique longitudinal database allowing us to compare the short- and long-term performance implications of intra-family versus external ownership transitions in a country's entire population of privately held family firms.

We seek to make three principal contributions to the literature. First, while management succession and their implications for a business have received scholarly attention for many years (De Massis *et al.*, 2008; Molly *et al.*, 2010), ownership transfers have not. This is unfortunate because the takeover of ownership marks a radical change in the fate of the family business and one that can have substantial performance implications. New outside owners tend to infuse the firms they acquire with new energy and resources, which can be instrumental for exploiting new business opportunities (Nordqvist and Melin, 2010; Parker and Van Praag, forthcoming). Focusing on the performance implications of external ownership transfers seems particularly important given that such transfers appear to be more common than intra-family transfers of ownership. Although precise measures of this pattern are uncertain and vary across studies and empirical contexts, it seems that only 20 to 30 percent of all family businesses are transferred internally to the next generation (e.g., Sardeshmukh and Corbett, 2011). The sheer magnitude of the phenomenon makes it an area worthy of further research.

Second, it appears that many family firms have a long-term orientation (Miller and Le Breton-Miller, 2005; Lumpkin and Brigham, forthcoming) and are more risk averse than other firms (Zellweger, 2007). While such differences may have performance implications, it is likely that the short- and long-term performance implications will be different. By developing hypotheses and empirically examining such short-term and long-term implications, we aim to articulate important insights about the long-term orientation of family businesses. As noted by Lumpkin, Brigham, and Moss (2010), the long-term orientation of family business is likely to play an important role in the extent to which these firms exhibit an entrepreneurial orientation. Third, the

empirical literature on the performance effects of succession to date has focused primarily on CEO succession in publicly listed and often large family firms (Gomez-Mejia, Nuñez-Nickel, and Gutierrez, 2001; Pérez-González, 2006). Less attention has been paid to the performance effects of intra-family versus external transfers of ownership in small private firms, despite the vast majority of family firms in most economies being private and small in size. In these privately held family firms, ownership and management are often unified and the transfer of management and ownership typically go hand in hand (Carney, 2005). While one important study (Bennedsen *et al.*, 2007) examined the three-year mean operating profitability of privately held family firms following intra-family or external ownership transfers, it attended to only short-term effects. The few studies focusing on performance effects following succession in privately held family firms are (1) relatively narrow, having attended to perceived profitability just shortly after succession (Venter, Boshoff, and Maas, 2005) or are (2) valuable but just single case studies (Dyck *et al.*, 2002). Thus, our research about the performance implications of the simultaneous transfer of ownership and management adds substantial generality to knowledge about the most common type of family firms (Astrachan, 2010).

In this paper, we next outline the theory and formulate our hypotheses. In the first part of the paper, we argue that transfer of ownership within the family will lead to positive short-term firm performance. In the second part, we argue that long-term performance will be more positive for firms transferred to outside owners, compared to those passed on within the family. Following our Theory section, we present our methods and substantive results. In the final section, we elaborate our results and the contribution our research makes to the extant literature on strategy and entrepreneurship in family businesses. The paper concludes by acknowledging some limitations of our study and with suggestions for future research.

THEORY AND HYPOTHESIS DEVELOPMENT

Long-term orientation and implications for short-term performance of intra-family and external ownership transitions

In order to understand the performance implications of intra-family versus external ownership transitions

in family firms, we first examine the incentives that families have for making these ownership transitions and the incentives for outsiders to acquire family firms. Provided that there is an heir within the family, both types of ownership transfer are realistic.

Family firms are often credited for having a long-term orientation defined as ‘the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period’ (Lumpkin *et al.*, 2010: 245). Such a long-term orientation is associated with a preference for foregoing short-term financial rewards in favor of long-term returns (James, 1999; Zellweger, 2007), and a willingness to forego an optimal capital structure (Burkart, Panunzi, and Shleifer 2003) in favor of an ownership structure that maximizes the probability of retaining the control rights over the firm in the long run (Mishra and McConaughy, 1999). However, this vision of the standard potential long-term orientation of family businesses is predicated on the assumption that families intend to retain control rights within the family for extended periods of time, often over several generations (Gomez-Mejia *et al.*, 2007).

We suggest that while long-term orientation may generally be predominant among family firms, there is a significant variance in the extent to which family firms exhibit such a long-term orientation. Some, but not all, family businesses are managed for the long run with the clear intention to be transferred to the next generation, while other families manage their businesses with the intention of cashing in on their hard work. Letting go of the ownership of a family business by selling it to an external party may, on occasion, be a better way of preserving family financial wealth (Sharma and Manikutty, 2005) and socioemotional wealth (Gomez-Mejia *et al.*, 2007). We expect the degree to which family businesses have a long-term orientation to impact short- and long-term performance of businesses that are sold externally and those that are passed on to the next generation. First, we expect financial performance in firms transferred within the family to be lower, but survival higher, than for those transferred to outside owners for the following reason: a family that transfers the ownership of the business internally lacks the incentive to maximize short-term performance, but will tend to focus on maximizing long-term endurance of the business (Habbershon and Pistrui, 2002). A family that manages a firm that is about to be sold to an external party is likely to strive to maximize short-term performance for two reasons.

First, it helps the family maximize the income it is able to reap before the business is sold. Second, higher performance has a signaling value, of making a business appear to be a more attractive acquisition target.

The potential ‘baiting’ value of such signaling should be particularly high in privately held small family businesses. The majority of most family businesses—and the ones examined here—are prone to information asymmetry between insiders and potential external buyers. While large publicly listed companies divulge substantial detailed information, in small private family firms there is less need for written contracts, reports, and other formal documents that can be examined by outsiders (Carney, 2005). Thus, families have access to extensive information about all aspects of their business, but this information is not manifestly visible or easily accessible to outsiders.

This information asymmetry can be used opportunistically, leading to the adverse selection problem (Stiglitz and Weiss 1981). To the extent that families are able to capitalize on this information asymmetry, incentives are created for them to turn to the outside market to sell some, but not other, firms. In other words, families owning privately held companies can capitalize on information asymmetry by ‘window dressing’ the firms presented as potential acquisition targets to outsiders. Moreover, because families likely do this ‘window dressing’ of firms that are external acquisition targets (Buono and Bowditch, 1989) but not for those transferred internally, these firms are likely to exhibit artificially high performance prior to the sale, but a performance that probably will fall off after acquisition. In contrast, a similar drop in performance is less likely for firms transferred within the family.

In sum, firms transferred intra-family are likely to exhibit a long-term orientation with similar performance levels directly before and directly after the ownership transfer. In contrast, firms transferred externally are likely to exhibit high performance directly prior to the transfer (because these families are more likely to prioritize short-term performance and engage in ‘window dressing’), but this performance tends to diminish directly after the ownership transfer. This leads to the following hypothesis:

Hypothesis 1: The short-term performance following ownership transfer will be more positive for intra-family transfers than for external transfers

We have suggested that firms where ownership is passed to the next generation of family members exhibit systematic differences from those firms sold off to external parties, namely the degree to which they have a long-term orientation. The previous hypothesis suggested that these differences have some immediate, short-term performance implications. However, the implications of the two types of ownership transfers might also pose differing consequences for firms’ long-term performance. In essence, we contend that long-term performance in companies transferred outside the family is likely to be better than in those passed on to other family members. This argument is not uncontroversial, but it has rarely been tested empirically (Bertrand and Schoar, 2006). We propose that because family businesses retained within the family across generations have a long-term orientation (Lumpkin *et al.*, 2010; Miller and Le Breton-Miller, 2005), they tend to avoid debt financing in order to retain control rights over their firms (Zellweger, 2007). Such reluctance to rely on outside financing is consequential, making them prone to forego investment opportunities that require fast decision making and immediate financial commitment (Lumpkin and Brigham, forthcoming).

An additional reason why ownership transition to outsiders leads to better financial performance relates to the consideration family owners tend to give to nonfinancial performance outcomes (Zellweger *et al.*, forthcoming). As they mature, companies passed on within a family tend to become means of achieving idiosyncratic family goals such as status, family employment and autonomy rather than vehicles for financial wealth creation. Owner families are known for their concern for ‘nonfinancial aspects of the firm that meet the family’s affective needs, such as identity, the ability to exercise family influence and the perpetuation of the family dynasty’ (Gomez-Mejia *et al.*, 2007: 106). These concerns mean that family owners are ready to absorb higher risk to protect their legacy and keep family control of the firm over the long run, even at the expense of poor financial performance (Gomez-Mejia, Makri, and Larraza Kintana, 2010). The pursuit of nonfinancial performance outcomes and the emotional attachment to their business are unique features of family owners (Zellweger *et al.*, forthcoming), and these things are likely to spread throughout the family. ‘Family owners may restrict share dealing to kinship members who are similarly concerned with family agendas rather than having a

sole focus on financial performance' (Westhead and Howorth, 2006: 303). Conversely, we assume outside owners who lack an emotional attachment to the firm to be more likely to develop a strategic agenda that puts more focus on traditional performance outcomes.

Moreover, companies transferred within the family will, over time, suffer from the fact that owners and managers tend to be drawn from a smaller competence pool, compared to firms transferred to outsiders. This restriction is likely to have an unfavorable effect on a firm's capabilities, i.e., its capacity to generate value (Grant, 1996). Such negative effects have been documented in both publicly listed (Pérez-González, 2006; Hillier and McColgan, 2009) and private small- and medium-sized (Bennedsen et al., 2007) family businesses. A recent review reports several studies that found the average ability of nonfamily heirs to be higher than the average ability of family heir managers, because the former come from a far larger talent pool (Chua, Chrisman, and Bergiel, 2009). Drawing on a broader outside base of capabilities secures a provision of new and valuable perspectives and ideas whose input can positively impact performance.

Although it is possible for a family firm to retain ownership while transferring management responsibilities to outsiders, most small- and medium-sized family firms, including those investigated here, are characterized by unified ownership and management (Carney, 2005; Westhead and Howorth, 2006). New owners from outside the family are more likely to appoint nonfamily managers who will introduce strategies and organizational change aimed at improving performance, and these will typically take time to measurable payoff. Thus, companies transferred within the family might suffer from negative long-term performance consequences compared to companies transferred to outsiders (Pérez-González, 2006; Bennedsen et al., 2007), since the outside-owned companies are less likely to put a kin-based restriction on management (Chua et al., 2009).

The involvement of the family system in private firms also increases ownership complexity (Westhead and Howorth, 2006), one consequence being that companies transferred within the family run a greater risk of suffering from relationship conflicts (Kellermanns and Eddleston, 2004; Schulze et al., 2001). The negative effect of family conflicts on firm performance is well documented conceptually and empirically. Family dynamics such as the rotten-kid

theorem (Bergstrom, 1989), altruism (Schulze et al., 2001) and perceived unfairness among siblings (Kets de Vries, 1993), all tend to spill over to the business system, creating a seedbed for stagnation rather than innovation (Morck and Yeung, 2004). Different risk profiles and goal functions among family members may also cause conflicts that negatively impact the business (Habbershon and Pistrui, 2002). The weight of these hard realities, taken together, lead us to suggest that performance in firms where ownership is transferred externally will be better compared to firms transferred within the family, but that it takes time for these differences to materialize. This leads to the following hypothesis:

Hypothesis 2: Long-term performance will be more positive for external transfers than for intra-family transfers.

Risk taking and time horizon differences between intra-family and external ownership transfers

The research to date on acquisitions of privately held firms has focused on the consequences of information asymmetries, encouraging sellers to deceive or hide information from acquiring firms, and sellers and buyers to develop informal relationships to counter these asymmetries (Graebner, 2009). A more fundamental implication of information asymmetry is that it introduces an element of uncertainty into the performance expectation of family firms that are acquired. Akerlof's (1970) economic theory of 'lemons' refers to a seller's knowledge advantage about the inherent value of a product, relative to that of the buyer. This arrangement appears particularly relevant to the case of the external transfer of ownership of family firms. Families have incentives to present their firms to potential buyers as high quality and with large growth potential. Due diligence in finding out the details is inherently very difficult since much of the tacit knowledge related to customers, markets, and growth potential of the firms resides in the heads and social network of family member owners/managers (Carney, 2005; Pearson, Carr, and Shaw, 2008; Sirmon and Hitt, 2003). This disparity in part explains why acquiring firms may require the family CEO to stay in management for a period after the sale of the family firm (Mickelson and Worley, 2003). According to the 'lemon' metaphor, it is because of this information asymmetry that outside buyers cannot know the immediate and

long-term prospects of the firm. Hence, they choose between target companies from a pool of seemingly attractive targets, but are aware of the risk that the chosen target company may turn out to be sour—i.e., there may well be unforeseen acute and structural problems regarding the firm's long-term potential that a formal due diligence procedure might fail to ascertain. According to Akerlof's (1970) theory, potential buyers will take this realistic fear into consideration by factoring uncertainty into the acquisition of family firms. They are aware of the potential of 'window dressing' and will pursue an acquisition to completion only if they are comfortable bearing that uncertainty for the future. Buyers of family firms are likely to have relatively high tolerance for uncertainty and be conscious about it. Thus, although rarely discussed in the literature, acquirers of closely held family firms are inherently bearers of uncertainty and, thus, entrepreneurial in much the same way as business founders (cf. Knight, 1921; Sarasvathy, 2001).

Given this endemic uncertainty, it is useful to view buyers as acquiring an 'option' for a business platform and a business opportunity they think they *can* develop (Folta and O'Brien, 2008). A fundamental property of uncertainty is that it leads to outcome variance (Knight, 1921). Due to the greater role of uncertainty associated with family firms acquired by external owners, we expect them in their journey of 'calculated risk' to exhibit greater variance in performance following the ownership transfer.

We noted that prior research suggests that if a family intends to retain the business for the next generation, they are more likely to have a long-term view of ensuring stability and survival of the firm (Habberson and Pistrui, 2002; Lumpkin *et al.*, 2010; Zellweger, 2007). Consequently, rather than seeking an optimal level of risk (both business risk and risk related to capital structure), they are willing to trade off optimal performance to ensure long-term survival and stability of operations (Gomez-Mejia *et al.*, 2007). For example, family firms have been shown to forego an optimal capital structure in favor of financing operations with internally generated funds because this is associated with lower risk exposure (Burkart *et al.*, 2003).

But, more debt is associated with greater financial leverage and higher risk and should, therefore, lead to greater variance in performance. The takeover and entry of new ownership and management in external ownership transfers also represent risk because of

the extensive changes that it entails. Therefore, we can expect that family businesses where ownership is transferred within the family will exhibit relatively little performance variance, and few firms will fail in the short run. Comparing the difference in risk and uncertainty between intra-family and externally transferred businesses leads us to pose the following hypothesis:

Hypothesis 3: Long-term performance variance post-ownership transfer will be higher for external transfers than for intra-family transfers.

The nature of risk is intimately tied to the time horizon through which managers believe their investments should pay off (Bernstein, 1996). As opposed to the capital market where risk is framed as unexpected variability or volatility, managers seldom seek or measure risk in probabilistic terms, nor even reduce it to a quantifiable construct (March and Shapira, 1987). The time aspect of risk has been thoroughly researched in behavioral finance (Kyle, Ou-Yang and Xiong, 2006), yet has only recently received systematic attention in theorizing on succession decisions in family firms. The time aspect is important to the survival of firms following succession in three distinct ways.

First, in family firms, senior managers typically have substantial discretion. They can act not on the behalf of a diverse group of anonymous shareholders and their appointed board, but rather as direct agents of families involved in the day-to-day operations of the business (Carney, 2005). While employed managers are generally most interested in firm performance during the period in which they are compensated (Walsh and Seward, 1990), family managers can more effectively focus on the long-term survival of the firm due to the long time horizon affecting both decisions about capital budgeting and resource allocation.

Second, the time aspect of risk is closely related to firms' capital budgeting decisions. Zellweger (2007) argues that while traditional financial models of capital budgets model investment decisions as discrete 'stand-alone' decisions with a fixed time horizon, in practice managers in family firms display a longer time horizon for investments than most of their nonfamily counterparts. This, in turn, influences the risk-equivalent costs of equity capital. If long-term survival is a goal that may take precedence over short-term performance (as it often is among family businesses) (Stafford *et al.*, 1999),

family ownership may provide an effective structure to manage financial capital since families generally have a longer time horizon and are less exposed to fluctuations in the capital markets (Dreux, 1990). John Walton of Wal-Mart describes his family's perspective of their involvement with Wal-Mart as follows (Weber and Lavel, 2001): 'We view (the company) really more as a trust, as a legacy we are responsible for, rather than something we own.'

Third, the time aspect of risk is also related to firms' resource allocation decisions. Business owners may have different and compelling preferences about the time frame within which investments need to pay off. For instance, Sirmon and Hitt (2003) argue that family firm owners are more likely to use a longer time horizon for resource allocation than nonfamily owners ('patient capital'). Here, financial capital is invested for long periods without the intention of liquidation (Dobrzynski, 1993; Sirmon and Hitt, 2003). Time horizons for the evaluations of resources are pivotal in accurately estimating values. Artificially imposed time horizons that are either too short or too long result in less accurate estimations. Time horizons that are too short are likely to produce undervaluations of some resources, specifically intangible resources such as social or intellectual capital (Sirmon and Hitt, 2003). Still, time horizons that are too far out can encourage the holding of resources that have less value in competitive markets (D'Aveni, 1994). In sum, these three differences in the time horizon of family firms lead us to posit the following hypothesis:

Hypothesis 4: Survival post-ownership transfer will be higher for intra-family transfers than for external transfers.

METHODS

Research design and sample

Examining and contrasting the performance of firms transferred within families and those taken over by external owners poses multiple methodological challenges. First, we need to obtain robust data on both types of ownership transfers and avoid possible sample selection biases. Second, in order to avoid selection on the dependent variable (performance), we need a sample of firms that can be followed with equal frequency of observations from the time before ownership transfer and into the future.

We confronted these potential challenges by constructing a unique longitudinal data set, combining three longitudinal databases maintained by Statistics Sweden, the official bureau of census in Sweden. The database RAMS provides yearly data on all firms registered in Sweden, including measures of annual sales, profitability, and debt. The database LISA provides yearly data on all Swedish inhabitants, including family relationships. Finally, the multigenerational database¹ provides information on couples (if they are married or if they are living together and have children together) as well as biologically linked families (parents and children).

These three databases aggregate annual information about individuals and/or firms, thus our analyses are based on annual data. As our basic sampling frame, we chose all privately held firms with 10 employees or more that were in existence in Sweden any time from 1997 to 2007. This excludes smaller family firms that generally would not be realistic acquisition targets and where succession may be 'a trivial decision' (cf. Gimeno *et al.*, 1997). In our universe, we include all such firms that were operated and owned by two or more family members either in a household (spousal couple) or in a biologically linked family (fathers, mothers, and children living in the same or another household). Statistics Sweden does not report on exact ownership shares, but rather on the individuals or group of individuals who work in the business as majority owner(s). Since we focus on nonlisted family firms, which are generally small- to medium-sized in Sweden as in other developed nations, the bias of this official filter can be ignored for all practical purposes. In such firms, ownership and management are typically unified and the transfer of management and ownership typically go hand in hand (Carney, 2005). This blind spot about 'exact ownership shares' does mean we cannot investigate transitions of minority ownership stakes. Our focus here, however, is on the specific point in time when the successor(s) actually take over majority ownership.

We define household members as 'nuclear family;' children and parents living elsewhere as 'immediate family' (Robins and Tomanec, 1962). Both categories are included our definition of family firms, but that of 'extended family' (siblings, cousins, or uncles/aunts) is not. The result is a sample of 3,280 firms, where the average firm has 30.45 (s.d. 147.53)

¹ In Swedish, 'flergenerationsregistret.'

employees and annual sales of 43,280,320 SEK (approx. \$6.2 million).

We tracked the complete life histories of these firms prior to 2007 to investigate whether or not they went through an ownership change. We chose to retain only those firms that went through an ownership transition in 1998 or later. This cutoff point is motivated by our goal to investigate both short-term and long-term performance levels following an ownership change. Further, we sought to look at performance levels preceding an ownership change in order to control for possible performance differences before the transfer. Given that we investigate a panel of firms that undergo a transfer for any of the years 1998 to 2007 and follow these until the end of 2007, we study 10 full cohorts of firms. Thus, we have access to data on performance and survival ranging from one to 10 years subsequent to a particular succession. This allows us to account for right censoring and control for macroeconomic fluctuation since our study extends beyond a specific business cycle.

The data used in this study is from Sweden, one of the few countries where this kind of population data is available. While being able to study a whole population of firms certainly is an invaluable strength, we also recognize that features of our research may be context specific, an issue about which there is growing consciousness in entrepreneurship research (Zahra, 2007; Welter, 2011). Indeed, the meaning of short-term and long-term performance may differ between countries and so can the definition of a family. For instance, in a Swedish family business context, it makes sense to focus on the nuclear and immediate family (intra-household family and extra-household parents and children) since extended kinship relations in economic and social life are generally low (Popenoe, 1987). Later in the Discussion section, we return to discuss the validity and limitations of this classification.

Short-term versus long-term orientation

While we have found no *theory* that explicitly relates strategic decisions to short-term versus long-term orientation of managers and teams (Van der Stede, 2000), Lumpkin *et al.* (2010) do provide a *conceptual* definition of long-term orientation as the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period. We base our empirical approximation on Lumpkin *et al.*'s definition and the

research on mergers and acquisitions (M&As) in strategic management, which suggests that a time period of three to four years is necessary in order to realize critical outcomes of M&As (Capron, 1999). Hence, in our paper, we define short-term performance as performance up to three years after a succession and long-term performance as performance more than three years after a succession.

Variables and measures

Dependent variable: performance

In order to ensure the robustness of our results, we rely on two separate indicators of performance taken from secondary sources containing annual statements. In Sweden, all incorporated firms have to report full annual statements underwritten by a chartered accountant. Earnings before interest and tax (*EBITA*) is the profit of the firm as reported to the tax authorities. It can be utilized as a continuous variable, measured on a yearly basis, profits after financial income and expenses. The other performance indicator is *sales growth*. Here again we rely on secondary sources containing annual statements and registering total net sales of the firm as reported to the tax authorities. Growth refers to changing size over time (Shepherd and Wiklund, 2009). Consistent with our analytical approach focusing on difference-in-difference estimation (see below), we compared post-transfer sales to pre-transfer sales to investigate relative differences in sales growth among two similar groups of firms before or after a transfer. The alternative of merely comparing differences in growth rates is precluded as illegitimate by virtue of our analytical approach. Because the distribution of growth in sales is skewed, we rely on the natural log of sales growth in the tests of Hypotheses 1 and 2.

Dependent variable: performance variance

To estimate performance variance for each of the performance indicators, we looked carefully at how performance varied over the period following the ownership transfer. Since our focus is on long-term performance variance, we investigate performance variance up to three years after the succession.²

²In the Results section, we also report on a number of robustness checks, including a model investigating performance variance for all years following succession.

Dependent variable: survival

We have had access to detailed information about the firms and the extent to which they continue to do business. Disappearance from a data register was not considered, in itself, a sufficient criterion for assuming if a firm had failed to survive. In Sweden, any legal change in an incorporated firm has to be reported to the authorities, and this information is passed on to Statistics Sweden. Consequently, our data set contained a rich amount of information about all kinds of firm exits, including discontinuance, merger, and acquisition. It should be stressed that exit by merger or acquisition need not be a sign of organizational failure. To the contrary, divesting their equity can, instead, be seen as the pinnacle of success for many firm owner-managers. Therefore, we believe discontinued and acquired/merged firms should not be pooled in our survival analysis, and we excluded them.

Independent variable: ownership transfer

Ownership transfer (succession) can take place either within the family or outside the family (Ucbasaran, Westhead, and Wright, 2001; Wennberg et al., 2010). If one or several individuals of the nuclear or immediate family (spouse(s) and/or child(ren)) exits ownership/management from one year to another and someone else in that nuclear or immediate family either remains as owner/manager or enters ownership/management, we consider this an intra-family ownership succession (cf. Bjuggren and Sund, 2002; De Massis et al., 2008). If all owner-managers of a family firm exit ownership and management from one year to the next and new owner-manager(s) outside the nuclear and immediate family enter during the same time period, we consider this an external ownership transition.³ To avoid arbitrarily classifying firms shifted within the extended family (grandchildren and/or siblings living elsewhere) as external transfers, which may be considered a 'subcategory' of internal successions,⁴ we deliberately exclude such firms from the sample. Our family firm definition is in line with classic definitions since we view family firms as those where ownership rests in the hands of a single

nuclear family (Bernard, 1975; Barnes and Hershon, 1976) and their children living in the household or elsewhere (Chua, Chrisman, and Sharma, 1999). With these definitions, approximately 35 percent of ownership transitions occur within the family while 65 percent are transitions to outsiders. This variable is coded '1' if the ownership transfer is intra-family and '0' if it is external.

Control variables

We also include a number of control variables. The exact control variables used in each model are shown in the relevant table. To control for possible 'window dressing' of firms prior to transfer and for differences in a firms' leverage and, therefore, risk profile (as opposed to owners' perception of firms' risk taking), we control for *pre-transfer debt ratio* by measuring debts over owners' equity in the year preceding a transfer. To control for macroeconomic and environmental conditions that may alter family businesses' preferences for intra-family or external transfer of ownership (independent of either the quality of managers in the next generation or the business risk of the firm), we include year dummies as well as a time-varying measure of *sum of venture capital investments* in Sweden (the best proxy available for the availability of external investments). This variable was taken from Isaksson (2006). We also control for *transition year* by including a series of dummy variables, coded '1' for the year the ownership transit took place and '0' for all other years. Finally, we control for *firm size*, measured as number of employees. We also use *sales*, measured as total net sales of the firm as reported to the tax authorities, as a control in the survival model.

Analytical approach

The primary goal of this study is to compare how short- and long-term performance develops in family firms that are sold to outsiders compared to firms that go through intra-family ownership transfer. Given that we are interested in two different groups and how performance is influenced (changes) as a consequence of ownership changes that these two groups go through, difference-in-difference estimation (DD) techniques employed in similar studies (Bennedsen et al., 2007) appears ideal for our purposes. The DD estimator represents the within-subject performance difference during, before, and after the ownership transfer of the two groups, *intra-*

³Since we focus on individuals or families that can be identified as majority owners, our definition excludes external transfers via strategic sales to corporate acquirers. We are grateful to an anonymous referee for pointing this out.

⁴We are grateful to an anonymous referee for pointing this out.

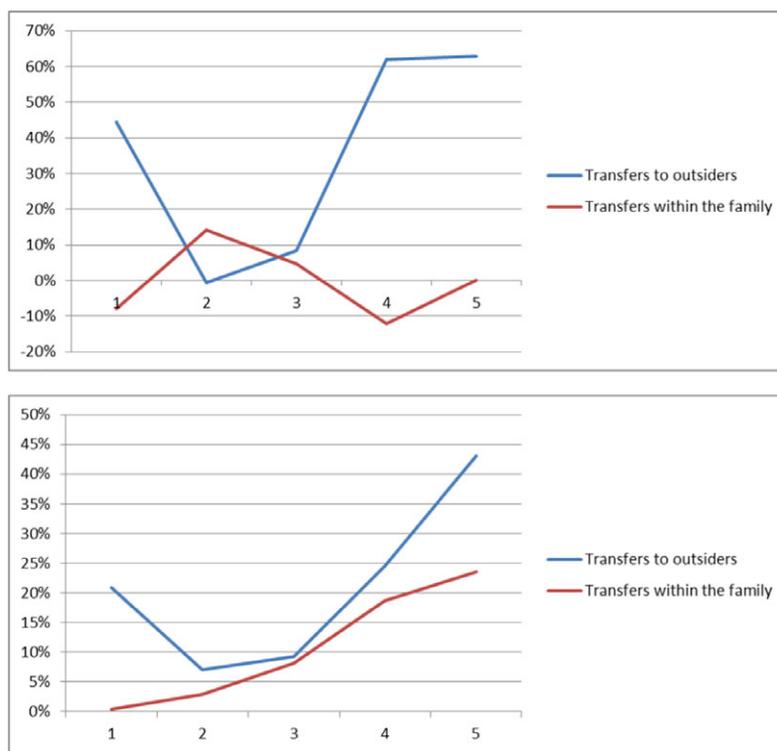


Figure 1. Growth in EBITA (top) and growth sales (bottom) for intra-family transfers and external transfers

family transfers and external transfers. This estimation adjusts for biases that are due to permanent differences between the groups. In other words, DD adjusts for differences that existed before the transition took place. This procedure is used to test Hypotheses 1 and 2. The DD estimation is obtained by:

$$y = \beta_0 + \beta_1 \text{ownershiptransition} + \delta_0 \text{post} + \delta_1 \text{post} \cdot \text{ownershiptransition} + \beta_k x + u \quad (1)$$

where y is the outcome of interest, i.e., performance. $Post$ is a dummy variable stating if the time period is before (0) or after (1) the succession. $Ownershiptransition$ is a dummy variable stating if the firm belongs to the treatment group (i.e., intra-family succession) or to the control group (external succession). $\beta_k x$ is a vector of control variables. The coefficient of interest, δ_1 , represents the interaction term of $post$ and $ownershiptransition$ and is equal to '1' for intra-family transfers. The coefficient shows the difference pertaining to the family succession. In short, the difference-in-difference estimate for the two groups and the pre- and post-succession period can be expressed as:

$$\hat{\delta}_1 = (\bar{y}_{B,2} - \bar{y}_{B,1}) - (\bar{y}_{A,2} - \bar{y}_{A,1}) \quad (2)$$

In order to test for systematic differences between the two groups before and after succession, while simultaneously controlling for other factors that may change exogenously after succession, we include a set of control variables, listed in the note below Table 2. OLS regression is used for examining Hypothesis 3. It is expressed as:

$$y = \beta_0 + \beta_1 x + \dots + \beta_k x + u \quad (3)$$

where y is the performance variance computed for each firm separately; it constitutes the variance in performance measured as sales growth and EBITA. Since Figure 1 indicates that the mean levels of performance are highly variable over the years of interest, the model is estimated for each firm as its mean variance over the first five years following the ownership transfer.⁵

⁵ Because we include only firms that were in existence for five years following the ownership transfer, we are unable to include all cohorts. Further, some firms exit and do not provide complete data over the five years following the transition. Therefore, the number of observations in Table 3 (1,330) is lower than the

The independent variable is the type of ownership transition, expressed as the dummy variable *intra-family transfer*. In addition, a vector of control variables (*pre-transfer debt ratio*, *pre-transfer firm size in number of employees*, *pre-transfer sales*, and *sum VC investments* are included). Sales and employees are both important measures of firm growth, but not necessarily in the same direction; thus one should be controlled for when estimating the other (Shepherd and Wiklund, 2009). Consequently both are used as controls. In this context sales and employees were found to be quite highly correlated (0.89), a pattern which may inflate the standard errors and introduce biased estimates. To guard against the possible multicollinearity, we conducted two key robustness checks. First, computed VIF values were found to not exceed 4.24, far below the generally critical value of 9. Second, in unreported models (available upon request), we estimated identical models for variance in sales and EBITA without employees, as well as models excluding the largest 5 percent and smallest 5 percent of firms (in terms of employees). None of these models changed the significance level or direction of the results in Table 3, indicating our results are robust against the potential for multicollinearity.

Finally, to test Hypothesis 4, we rely on survival data and a Cox proportional hazard model to estimate the hazard of firm exit. The survival model utilizes information about observations of firms that experience an exit along with those that do not, thus correcting for right censoring. A correlation matrix is available in the Appendix.

RESULTS

Table 1 reports descriptive statistics for the different performance measures for both the year prior to the

survival model in Table 4 (3,280). We conducted two robustness tests to guard against the potential of survival bias. First, we estimated Table 3 as pooled OLS for all years regardless of time from succession. The results were qualitatively similar, but results sensitive to outliers (as shown in Figure 1, variance in performance is high for the first few years after succession). Second, we estimated two-stage Heckman models where debt ratio and sum of VC investments were used in the first-stage selection equation. The results of the Heckman model for variance in sales growth were identical, but for EBITA variance failed to converge due to some skewed variables—a not uncommon problem since the Heckman model is sensitive to skewed variables (Little and Rubin, 1987). These tests indicate that our results are sound and robust to alternative specifications. However, we chose to report the more conservative estimates in Table 3.

succession (t1) and the five years following the succession (t+1 to t+5). It can be noted in the table that prior to succession, firms that experience intra-family transfers are, on average, larger in employment size and report higher profits in terms of EBITA.

In Table 2, we report the results obtained in the DD estimation, which corresponds to the testing of Hypotheses 1 and 2. The estimation controls for systematic differences between the two groups and, thus, adjusts for biases that are due to permanent differences between them. In order to control for environmental differences that may occur subsequent to transition, the estimation has been accomplished both without control variables and with the control variables listed in the note below Table 2. The models produced similar results. As explained in the Methodology section, the interaction term δ_1 in the DD estimator takes the value of '1' for intra-family transfers. Hence, a positive coefficient in Table 2 indicates higher performance differences for intra-family transfers, whereas a negative coefficient indicates higher performance differences for external transfers.

Hypothesis 1 posits that the short-term performance will be more positive for intra-family transfers than for external transfers. Hypothesis 2, however, proposes that long-term performance will be more positive for external transfers than for intra-family transfers. Thus, we expect that normally firms transferred within the family will perform better in the very short term, while firms transferred to outsiders will perform better in the long run, with a shift somewhere in the midterm of three to four years (Capron, 1999; Lumpkin et al., 2010).

When comparing the performance, measured as EBITA and sales, of intra-family and external transfers of ownership in Table 2, we obtain the following results for each of the five years subsequent to the transfer: the coefficient for EBITA is negative every year except for year two,⁶ implying that firms transferred to outsiders outperform intra-family transfers in each of the years following ownership transition. The results are -1037.80 ($p > 0.10$); -104.29 ($p > 0.10$); -518.34 ($p > 0.10$); -1665.56 ($p < 0.05$); and -1308.46 ($p < 0.05$). As noted, the performance difference between the two groups is statistically significant only subsequent to year 3. The coefficient for sales is negative for each year, suggesting that firms transferred externally have consistently higher

⁶Potentially due to 'window dressing,' as explained in the next section referring to Figure 1

Table 1. Mean values in Swedish krona for performance variables (by type of transition)

Variable	Year											
	t ₋₁		t ₊₁		t ₊₂		t ₊₃		t ₊₄		t ₊₅	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
External transfers												
EBITA	2097	9504	3027	15117	2084	11665	2275	12907	3398	20352	3417	21925
Sales	43847	80394	53035	97118	46937	94982	47923	105022	54600	135060	62719	189305
Sales(log)	10.11	0.97	10.18	1.1	10.04	1.37	10.07	1.32	10.18	1.29	10.16	1.38
Intra-family transfers												
EBITA	1894	18507	1742	5463	2161	9848	1985	6252	1665	5465	1897	7655
Sales	40455	175098	40637	87637	41640	88552	43751	92207	48002	134433	49992	133879
Sales(log)	9.96	0.97	9.99	1.18	9.96	1.35	10.0	1.34	9.86	1.44	9.83	1.69

Table 2. Difference-in-difference estimates for type of transition

Outcome variable	D-in-D estimator (SE)				
	t ₊₁	t ₊₂	t ₊₃	t ₊₄	t ₊₅
EBITA	-1037.80 (699.74)	104.29 (692.59)	-518.34 (589.26)	-1665.56* (713.37)	-1308.46* (603.52)
(ln)Sales growth	-1.05*** (0.07)	-1.20*** (0.08)	-1.30*** (0.08)	-1.83*** (0.08)	-1.87*** (0.08)

Note: Control variables for year of transition and yearly sum of VC investments post-transition included. Positive coefficients indicate higher performance of intra-family transfers and negative coefficients indicate higher performance of external transfers.

sales growth compared to intra-family transfers. The results are -1.05 ($p < 0.01$); -1.20 ($p < 0.01$); -1.30 ($p < 0.01$); -1.38 ($p < 0.01$); and -1.87 ($p < 0.01$). Thus, in terms of sales growth, external transfers outperform intra-family transfers in each and every of the years studied. The results run directly counter to Hypothesis 1, which stated that the short-term performance would be more positive for intra-family transfers than for external transfers, and it is rejected. However, the evidence clearly indicates the long-term performance advantage of external transfers for both performance indicators (for sales growth during all of the years post-succession and for EBITA in years 4 and 5). This fully supports Hypothesis 2.

To better illustrate the magnitude of the differences in performance development for the two groups, we also include two graphs in Figure 1 displaying their mean performance differences following ownership transfer. Two things are particularly noteworthy. First, there seems to be a 'window dressing' effect for firms that are transferred externally, noticeable for both sales growth and EBITA. Both performance indicators are higher for the first year and then drop off, only to recover in years 4 and 5. Given that we rely on several cohorts followed over multiple years, this result is obviously not driven by specific external factors such as the availability of venture capital or even the otherwise all-important economic cycle. The second noteworthy feature of the graphs is that the performance advantage of the externally transferred firms seems to increase over time, as indicated by the larger gap between the two graphs. This provides further support for Hypothesis 2 that external ownership transfers have positive long-term effects.

According to Hypothesis 3 we expect that the performance variance post-ownership transfer to be higher for firms transferred to outsiders than for

those transferred within the family. Table 3 reports results from a pooled cross-sectional OLS, controlling for year of transition, availability of venture capital (time variant), and number of employees.

The dependent variable is obtained for all firms that survive at least five years. The results show that firms transferred externally have higher variance in sales growth over time (0.464 , $p < 0.001$). In addition, the results for EBITA confirm that firms transferred to outsiders have higher variance (-0.371 , $p < 0.05$). In sum, these tests provide full support for Hypothesis 3.

Hypothesis 4 follows the same logic that led us to expect higher variance in performance for firms transferred externally, anticipating that survival post-ownership transfer will be higher for firms transferred within the family than those transferred externally. The difference between the two ownership transfer types is illustrated in a graphical presentation of the Kaplan-Meier survival estimates, Figure 2. It is clear that the survival curve for externally transferred firms lies below that of the firms that are internally transferred. Since the former are on average smaller, it is critical not to accept Figure 2 as evidence supporting Hypothesis 4 before conducting a multivariate test. Table 4 presents this test in the form of a proportional hazard model (Cox regression). As noted, the effect of the control variable firm size is not statistically significant, although the other firm-level variables, *debt ratio* and *sales*, and the environmental-level control for *sum VC investments* all appear to marginally impact a firms' likelihood of survival. However, the coefficient for *intra-family transfer* exhibits by far the strongest effect on probability of survival. The hazard rate coefficient of 0.443 ($p < 0.001$) indicates the risk of firm failure is reduced by approximately 56 percent for firms that are transferred within the family. Thus, we find full support for Hypothesis 4.

Table 3. OLS estimates for long-term variance in performance

	Outcome	
	ln(Variance in EBITA)	ln(Variance in sales growth)
Independent variable		
Intra-family transfer	-0.372** (0.118)	-0.464*** (0.132)
Control variables		
Pre-transfer debt ratio	-0.001* (0.000)	-0.001 (0.355)
Pre-transfer firm size (employees)	0.002 (0.003)	-0.002 (0.004)
Pre-transfer sales	0.001*** (0.000)	0.001*** (0.000)
Sum VC investments	0.001 (0.003)	0.002 (0.003)
R ²	0.222	0.240
BIC value:	-239.548	-271.833
No. of observations:	1,330	

Note: Control variables for year of transition and year dummies included but unreported. Huber-White standard errors in parenthesis.

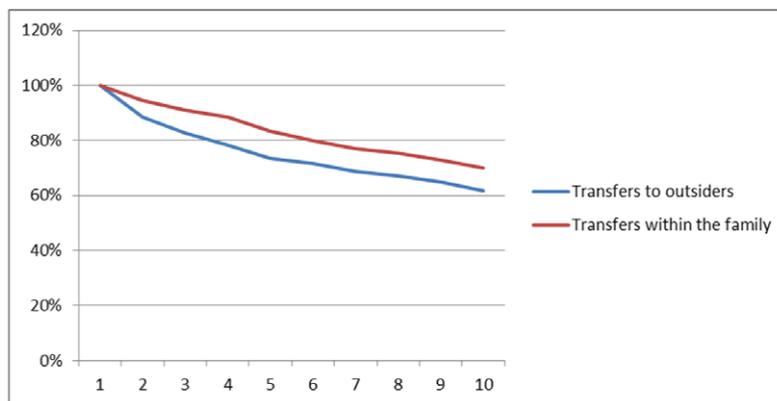


Figure 2. Survival rates by transition type

DISCUSSION

In this paper, we have concentrated on ownership transfers of family businesses, comparing the short-term and long-term performance implications of intra-family transfers in contrast to transfer of ownership to outsiders. Our unique research design allowed us to conceptually and empirically separate each class of business transition and examine their associated performance outcomes. Research on the implications of different succession routes has been deemed important among family business scholars

(Bjuggren and Sund, 2002; Le Breton-Miller *et al.*, 2004; De Massis *et al.*, 2008) because succession represents one of the most important events in the development of family businesses, and passing the business on to outsiders marks a radical shift in the fate of a family business (Sharma, 2004). While we believe that it is fruitful to examine the implications of many different kinds of ownership transfers, the most essential relates to the dilemma between keeping the business within the family or selling it to an external party. To the best of our knowledge, this study represents a first attempt to separate these

Table 4. Cox regression predicting firm survival

	Firm exit	
	Hazard rate	SE
Independent variable		
Transfer within the family	0.681**	(0.080)
Control variables		
Pre-transfer debt ratio	1.000***	(0.000)
Pre-transfer firm size	0.986***	(0.004)
Pre-transfer sales	1.000**	(1.00e-06)
VC investments	1.001	(0.004)
LR	54.21	
Chi-squared	0.000	
Number of subjects	3,280	
Number of observations	12,570	

Note: Control variables for year of transition and year dummies included but unreported. All coefficients in hazard rate form. All control variables are lagged.

two aspects of ownership transfers and to examine their associated performance outcomes both in the short and the long run. This was made possible, in part, thanks to our unique research design.

Based on theory related to the long-term orientation of family business, we argued that family firms managed with the intention of being transferred intra-family have more of a long-term orientation than family firms that are transferred externally to new owners. We presented four hypotheses concerning the performance implications of these ownership transitions, three of which were supported by our empirical analyses. We anticipated, but did not find, support for the idea that owner families 'window dressed' the firms that were sold externally so that initially, firms transferred externally would exhibit lower performance. Perhaps this is because acquirers buy the firm because they have spotted the possibility to improve performance (cf. Wright *et al.*, 2001) and this counteract any effects of window dressing.

One of the novel contributions of this research is that it adds to our understanding of the meaning and implications of long-term orientation in family firms (James, 1999; Miller and Le Breton-Miller, 2005; Lumpkin *et al.*, 2010). More specifically, we conceptually and empirically separate the short-term performance effects that can be attributed to the difference between the nature of the firms that are

offered to external buyers and the ones transferred within the family from the long-term performance effects that can be attributed to differences in management. The latter, we argue, is associated with values, preferences, and managerial capability.

Assuming that families are rational decision makers when it comes to choosing which firms they offer to outside buyers and which firms to retain within the family, we built on Akerlof's (1970) ideas of information asymmetry and uncertainty to hypothesize that firms managed for the long run would be transferred internally, whereas firms with more uncertain prospects would be offered for sale to the highest bidder. Also, the external buyers of the firms sold by the family would have a higher preference for risk. We have found substantial support for these ideas. In general, survival seems to be lower for firms transferred externally, and their performance is also more variable. These findings have some interesting implications. Specifically, we think our evidence adds to the debate about the pros and cons of intra-family transfer of ownership. Long-term survival is an important goal for family businesses (Zellweger, 2007). Our study is no doubt one of the first to closely examine the survival issue of firms that go through family succession, using a highly relevant comparison group, i.e., the survival of firms transferred to owners. On the basis of this finding, it appears families generally are capable of managing their firms for long-term survival.

We hypothesized and found strong support for the claim that in the long run firms transferred to external owners would outperform firms transferred internally in the family. We believe our approach offers helpful substantive and methodological insights to the current debate on the impact of family versus nonfamily succession for a firm's performance and entrepreneurial development (Bennedsen *et al.*, 2007; Bloom and Van Reenen, 2007; Cucculelli and Micucci, 2008). While to date most studies have focused on performance differences only at a specific point in time, we investigated performance effects of firm successions using multiple points of measurement over an extended period of time. The new terrain we have opened cannot be ignored, as we found clear differential results depending on the time horizon used for measuring performance.

We noted that acquirers of closely held family businesses are bearers of uncertainty because of the information asymmetry between sellers and buyers and that such individuals are likely risk tolerant.

It appears that as bearers of uncertainty they are entrepreneurial, in many ways similar to business founders (Knight, 1921; Sarasvathy, 2001). The acquisition of existing businesses as a route to entrepreneurship is a topic that generally has been unfortunately overlooked in the prior literature (Nordqvist and Melin, 2010; Parker and Van Praag, forthcoming). Given that the long-term performance of these firms was substantially better than the long-term performance of firms transferred to owners within the family, it appears that it should be a topic of central importance to scholars interested in strategic entrepreneurship.

We found in studying performance over multiple time periods that many owner-families seem to struggle to secure long-term performance in the companies they keep in the family. We suggest three main reasons why this struggle is difficult to overcome. First, families tend to have a long-term orientation, leading them to prioritize a capital structure that allows them to retain the control rights over the business over other more optimal capital structures. Due to their reluctance to take on debt, they may forego attractive investment opportunities. Businesses that are transferred to external parties do not have such restrictions, which can explain the long-term performance differences we observed. Second, in their search for suitable owners and managers from the next generation of the family, families draw on a limited pool of managerial capabilities. While we concur with those who observe that family membership can lead to the acquisition of unique tacit knowledge about the family and the family business (Carney, 2005; Sirmon and Hitt, 2003), it seems external owners, at least over the long term, are better equipped to extend the value of these businesses. Finally, the fact that family businesses prioritize nonfinancial goals could be detrimental to long-term performance. For example, goals that benefit the family may not always be in the best interest of the business, causing some families to retain resources for their own private use and deprive the business of what it needs to grow and prosper (Morck and Yeung, 2004).

Our research also provides informed guidance for family business and entrepreneurship research about the proper units of analysis when measuring performance. For a family transfer, within the family represents a commitment to continued family ownership, whereas external sale represents the harvesting of the value created in the entrepreneurial process (Wennberg *et al.*, 2010; DeTienne, 2010). We found

that firms exhibited systematically higher performance when transferred externally, but that firms transferred internally had markedly higher survival rates. This indicates that what is better for family wealth may not be better for the firm. On the firm level, external transfers exhibit higher performance (but lower survival); while on the family level internal transfers may represent prolonged entrepreneurship for the family. We believe this is an interesting finding, reinforcing the need to be clear about both the level of analysis utilized and exactly what performance measure represents entrepreneurship at the specified level (Davidsson and Wiklund, 2001).

Finally, our research contributes to the expanding literature on entrepreneurial exit by linking it to the research on family business succession and by studying the performance implications of family business exits. Scholars have observed that there are *multiple* exit paths that entrepreneurs can choose among (Wennberg *et al.*, 2010). Our study provides the best estimate to date of the relative frequency of intra-family and external ownership transfers of family firms. We found that nearly two-thirds of all recent ownership transfers in Sweden were external, providing ample evidence the sale of family businesses is a frequent phenomenon. We also show that, to a large extent, the firms that let go of the controlling family tend to benefit, at least in terms of better performance.

Thus, on the one hand, our study shows there are many research opportunities for entrepreneurship scholars to learn more about exits if they focus more on family business succession. On the other hand, our study shows there are many reasons why family business researchers should devote more attention to the sale of family businesses to new outside owners, and not restrict themselves to within-family successions (De Massis *et al.*, 2008; Sharma, 2004).

To the extent that exit has been studied in the family business literature to date, it has been conceptual or exploratory, looking at the internal challenges and difficulties regarding selling to outsiders, such as inertia and family members' emotional attachment to businesses and units (Salvato, Chirico, and Sharma, 2010; Sharma and Manikutty, 2005). We contribute to this literature not only by providing solid empirical evidence of the phenomenon and of the relative performance implications of different sale and exit routes, but also by providing theoretically sound explanations of the performance outcomes of these choices.

Limitations and future research

Our study also comes with limitations, several of which represent interesting avenues for future research. While we believe the distinction between intra-family and external ownership transfer is essential for understanding succession in family business, we are cognizant of the fact that neither intra-family nor external ownership transfers are homogeneous. For example, it is well known that there are basic differences between second and third generation successions and that the impact of different types of acquirers may vary (such as between MBOs and MBIs). Nevertheless, this paper represents a first attempt to systematically examine the performance implications of external and intra-family ownership transitions. We believe focusing on this fundamental difference is a necessary first step which future more fine-grained analyses of the performance implications of different *types* of intra-family and external ownership transfers will elaborate and modify. Given that we detected differential impact of intra-family and external ownership transfers on post-succession performance and the fact that quantitative studies comparing various types of ownership transfers are basically absent in the literature, comparative studies of how various succession routes affect firm performance in the short and long run remains an important topic.

An important limitation of our study is that we were unable to distinguish between different kinds of acquirers. Specifically, we were unable to look at second generation successions as a distinct type of intra-family transfer, or management buyouts or buy-ins as distinct types of external transfers (Howorth, Westhead, and Wright, 2004; Scholes *et al.*, 2007). Future research should explore potentially very strong differences between first generation and second generation successions. Further, it would also be of interest to find out if performance differences depend on whether the acquirer is an individual formerly employed in the firm, a private equity firm, a competitor in the same industry, and so forth. The performance implications of these different types of new owners may well show a pattern, playing a vital role in the dynamics of how the fortunes of firms play out over the years. In our working model, these cases represent nothing less than the potential of unobserved heterogeneity within the group of external ownership transfers. Since the results indicated clear differences by which intra-family and external successions shaped the subse-

quent performance and survival for firms, such unobserved heterogeneity is an unlikely reason for spurious results, but rather decreases the explanatory power of our models. It is almost certain that with even more detailed information on types of ownership transfers, we would actually have seen stronger performance implications and more fine-grained nuances depending on the type of external successor. Future studies would benefit from access to such information.

The central argument made here is that given the long-term orientation of family firms, there are differences between short-term and long-term performance of family firms that are transferred within a family compared to firms transferred externally to outside owners. Our inquiry relied on a unique database to follow family firms before, during, and after an ownership change, so as to (1) establish a base of comparison between similar firms transferred internally or externally and (2) be able to observe such temporal differences in their subsequent development. This is something prior research, relying on samples of a more cross-sectional nature, has not been able to investigate. However, we were unable to investigate in full performance beyond five years after a transfer. While our findings indicate ownership changes in family firms may represent a new stage of 'firm liability' that needs to be bridged by new owners (Carroll, 1984), these are ideas that may be challenged or extended by looking at an even longer post-succession time period. Questions about which factors contribute to such liabilities and how family heirs and new owners deal with them represent intriguing avenues for further research.

Another potential limitation is our stringent definition of family firms and succession. We restricted our concept of family firms and family succession to include only the nuclear and immediate next generation family members. Thus, we excluded firms owned by e.g., a person and his/her uncle/aunt, and ownership transfers to, for example, cousins. Although these definitions of fundamental types follow from our goal and ensure construct validity in the context we study (Popenoe, 1987), it is certainly the case that more inclusive definitions of these categories would have led to expanded and possibly different results. The notion of family in the traditional Swedish context typically refers to the nuclear and immediate family members (Bjuggren and Sund, 2002). Cousins, uncles, aunts, and other members tend to be seen as extended family, relatives with whom relations are typically weaker.

A strength of our research is that we were fortunate enough to have been able to test the hypotheses by using the entire population of firms and individuals in a single country as a base. This focus on a single country also leads to limitations. Sweden is a developed European country with a relatively small population. Although Sweden in terms of family business succession exhibits many similarities to other Western European countries, there are also differences. Specifically, our definition of family firms as focusing on the nuclear and immediate family (intra-household family and extra-household parents and sibling) might be less relevant in nations and regions where kinship relations across distant family members are stronger or more common—such as Spain, Italy, Latin America, or Southeast Asia. Hence we encourage scholars, practitioners, and policy makers alike to be careful in generalizing and applying our findings to other countries without taking the context specificity of those countries in account. At the same time, we contend that cross-country comparisons with regard to ownership transfer and performance represent a fruitful avenue for future research. Our paper contributes to strategic entrepreneurship and family business research by highlighting the difference in types of firm transfers externally or within the family. Our findings that performance results differ depending on the time horizon used explain some of the discrepancies in earlier studies, highlighting the importance of further research on the implications of long-term orientation among family businesses.

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APPENDIX.
Correlation matrix

Variable	1	2	3	4	5	6	7	8	9	0	11	12	13	14
1. Intra-family transfer	1.00													
2. Pre-transfer debt ratio	-0.03	1.00												
3. Pre-transfer firm size	0.01	-0.01	1.00											
4. Pre-transfer sales	-0.01	-0.03	0.89***	1.00										
5. Sum VC investments	-0.05	-0.01	0.01	0.01	1.00									
6. Transition year 1998	-0.03	0.03	0.00	-0.01	-0.73***	1.00								
7. Transition year 1999	0.02	0.04	0.00	-0.01	-0.32***	-0.07***	1.00							
8. Transition year 2000	-0.02	0.02	0.00	0.00	0.44***	-0.06***	-0.07**	1.00						
9. Transition year 2001	-0.05	0.00	0.00	-0.01	0.33**	-0.07**	-0.07**	-0.06**	1.00					
10. Transition year 2002	-0.05	0.05	-0.01	-0.02	0.28**	-0.07**	-0.07**	-0.06**	-0.07**	1.00				
11. Transition year 2003	0.00	0.02	0.00	0.00	0.18**	-0.07**	-0.08**	-0.07**	-0.08**	-0.07**	1.00			
12. Transition year 2004	0.20**	0.02	-0.03	-0.05	-0.14**	-0.17**	-0.18**	-0.16**	-0.18**	-0.17**	-0.19**	1.00		
13. Transition year 2005	-0.03	-0.03	0.00	0.01	-0.03	-0.08**	-0.08**	-0.07**	-0.08**	-0.08**	-0.09**	-0.20**	1.00	
14. Transition year 2006	-0.09**	-0.07**	0.00	0.03	0.02	-0.10**	-0.11**	-0.10**	-0.11**	-0.10**	-0.12**	-0.27**	-0.12**	1.00
15. Transition year 2007	-0.08**	-0.04	0.06**	0.07**	0.06**	-0.07**	-0.08**	-0.07**	-0.08**	-0.07**	-0.08**	-0.20**	-0.09**	-0.12